



WIFA

Water Infrastructure Finance Authority of Arizona

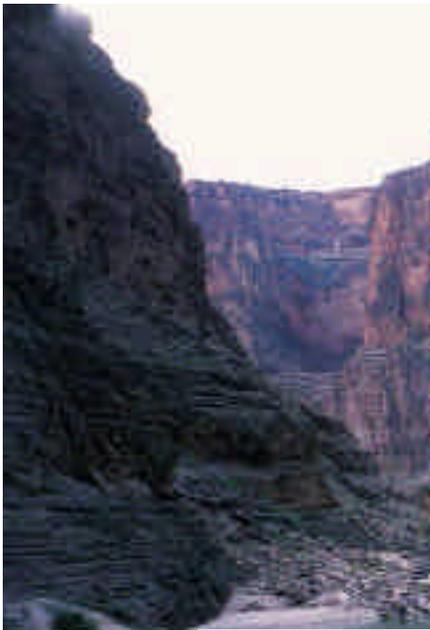
2004 Annual Report



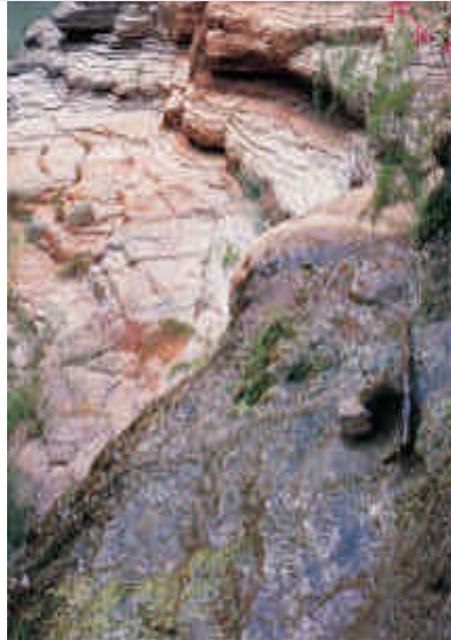
Governor Janet Napolitano

WIFA Chairman Stephen A. Owens

WIFA Executive Director Jay R. Spector



VISION AND MISSION STATEMENT



The Water Infrastructure Finance Authority of Arizona's **vision** is to guide our resources to communities with the greatest need to maintain and enhance Arizona's quality of life.

The Water Infrastructure Finance Authority of Arizona's **mission** is to maintain and improve water quality in Arizona by providing financial assistance and technical assistance for basic water infrastructure.

Table of Contents



Water Infrastructure Finance Authority of Arizona

Message from the Governor	2
WIFA Chairman's Message	3
2004 Revenue Bond Sale	4
Goals and Performance Measures	5
CWSRF Loan and Grant Awards	8
DWSRF Loan and Grant Awards	9
Financial Assistance Activity	10
Technical Assistance Activity	11
Statement of Financial Position	12

Governor's Message



STATE OF ARIZONA

OFFICE OF THE GOVERNOR

1700 WEST WASHINGTON STREET, PHOENIX, AZ 85007

JANET NAPOLITANO
GOVERNOR

MAIN PHONE: 602-542-4331
FACSIMILE: 602-542-7601

December 2004

Dear Members of the Legislature and Citizens of Arizona:

Building the new Arizona economy and protecting our state's precious water resources are two of my top priorities as Governor. I affirmed my commitment to these priorities when I signed Senate Bill 1062 into law earlier this year, which reauthorized the Water Infrastructure Finance Authority of Arizona for 10 years until July 1, 2014.

The Water Infrastructure Finance Authority of Arizona plays an important role in protecting Arizona's water and helping communities develop the water infrastructure they need to grow and prosper. Maintaining and improving water quality in Arizona through financial and technical assistance for basic water infrastructure is WIFA's mission.

As a significant provider to Arizona's economy, WIFA is a premier financial institution both in Arizona and nationally, originating over \$100 million annually in community wastewater and drinking water investments. These investments translate to jobs in communities throughout our state, while also addressing important infrastructure needs. As Arizona's water and wastewater funding source, WIFA offers a lifeline to many rural communities and privately-held drinking water systems.

To build the new Arizona economy and protect our water resources, we must continue to support programs and agencies such as WIFA which demonstrate measurable and proven effectiveness. Currently, the Clean Water State Revolving Fund monies which WIFA receives from the U.S. Congress do not cover our clean water infrastructure needs as a state. We must urge the U.S. Congress to rectify the funding allocation disparity by changing the funding formula. Arizona is entitled to its fair share of federal wastewater infrastructure dollars.

I wish to offer my sincere appreciation to WIFA Board Chairman Steve Owens, the WIFA Board of Directors and the WIFA staff for their outstanding record of achievement and dedication to serving Arizona's communities. With appreciation of the key financial and environmental role it plays, WIFA's programs will continue to benefit our citizens by maintaining and enhancing Arizona's natural resources, public health and quality of life.

Yours very truly,

A handwritten signature in cursive script that reads "Janet Napolitano".

Janet Napolitano
Governor



WIFA Chairman's Message



As director of the Arizona Department of Environmental Quality (ADEQ) I have had the opportunity to serve as chairman of the WIFA Board of Directors during the past two years. As Arizona's water and wastewater funding source, WIFA is an agency with a record of proven success for the state. This annual report highlights some of our achievements for 2004. ADEQ and WIFA enjoy a close working partnership, and this partnership has enabled us to effectively meet ongoing challenges, such as the federally-mandated arsenic standards, sustainable growth and infrastructure funding.

Meeting the Arsenic Standard

WIFA is committed to helping water systems meet the new Environmental Protection Agency's safe drinking water standard for arsenic by January 23, 2006. Working together with ADEQ and the Arizona Corporation Commission, WIFA participated in workshops throughout the state this year to help our state's small and rural community water systems comply with the new standard. The workshops were focused specifically on the state's 287 small water systems and those in rural areas because the challenges they face in paying for the compliance costs and because they rely primarily on groundwater as their drinking water sources.

WIFA's financial resources make it an important agency for water systems to utilize to meet the arsenic standard. Earlier this year, the WIFA Board of Directors authorized a grant to help establish the Arsenic Remediation Coalition. The coalition's plan to help small water systems includes: assisting

in publicizing the need for arsenic treatment, mentoring and sharing the expertise and experiences of arsenic remediation among public and private water systems, and assisting in seeking loans, leasing arrangements and rate approvals for arsenic compliance.

Clean Water State Revolving Fund Allocation Disparity

Although Arizona has made significant strides in water quality, our continued responsiveness to future water quality requirements is highly dependent on revising the state revolving fund formula which is based on outdated 1970s population figures and infrastructure needs. Making this issue an even larger challenge, the U.S. Congress has also sharply reduced federal funding for clean water infrastructure projects in Arizona for federal fiscal year 2005. The congressional action will result in a cut of more than 19 percent in the funding that WIFA receives from the federal government to support its loan program.

Arizona cannot continue to be a "donor state," funding the construction and expansion of clean water infrastructure in other states, especially considering our rate of population growth. WIFA, ADEQ and other strategic partners are proactively addressing this funding allocation disparity to obtain a greater and more equitable share of infrastructure funding for Arizona.

WIFA has provided communities throughout Arizona with funding for critical drinking water and wastewater infrastructure. WIFA plays an invaluable role in protecting Arizona's precious water supplies, ensuring safe drinking water and providing a foundation for sound growth across the state. WIFA's accomplishments this past year point to continued progress for the future.

A handwritten signature in black ink, appearing to read "S. Owens". The signature is fluid and cursive, written over a light gray background.

Stephen A. Owens
Board Chairman

2004 Revenue Bond Sale

THE 2004 REVENUE BOND SALE CONTINUED RECORD LOW INTEREST RATES.

On April 7, 2004, the Water Infrastructure Finance Authority of Arizona sold a record \$320 million in water quality revenue bonds. The proceeds from the bond sale are used to satisfy the growing demand for both loan programs that WIFA administers.

The 2004 bond sale came just a month after WIFA received the highest credit ratings possible from the three top Wall Street rating agencies: Fitch Ratings (Fitch) - AAA and Moody's Investor Service (Moody's) - Aaa, and Standard & Poor's (S&P) - AAA. This is the first credit rating for WIFA by S&P. Both Fitch and Moody's have provided ratings for WIFA's previous bonds and have reaffirmed their assignment of AAA and Aaa ratings, respectively.

To date WIFA has provided Arizonans over \$150 million in interest rate savings through WIFA's clean water and drinking water financial assistance revolving fund loan programs. The credit ratings allow WIFA to borrow money at the best rates and pass on significant savings to communities throughout the state. WIFA holds the highest revenue bond credit rating in Arizona.

The bond sale and the credit rating ranked as two very important achievements this year for WIFA and for the state of Arizona. Both achievements are evidence of WIFA's sound management and fiscal policies as well as its strong performance as a low-interest source of funds for Arizona communities.

Goals & Performance Measures

Goal 1: Award WIFA's resources in accordance with the needs of Arizona's citizens.

As shown in Table 1, in Funding Cycle 2004, WIFA continues to provide financial assistance to a diverse number of communities with varying levels of water quality and infrastructure needs. By balancing communities' relative environmental health and financial needs, WIFA is able to prioritize and expedite project funding in an efficient and timely manner.

During Funding Cycle 2004, WIFA dedicated its resources to improving the water and wastewater infrastructure of cities, towns, and tribes of all sizes throughout Arizona. Table 2 illustrates how WIFA dollars were disbursed to loan recipients by population.

A vital measure of the benefit WIFA loans provide to communities throughout Arizona is the savings to tax/rate payers when compared to traditional market financing. In Funding Cycle 2004, WIFA's below market interest rates and reduced closing costs will save Arizona communities an estimated \$26,000,000 over the term of the loans. Since the inception of the Authority, WIFA conservatively estimates total savings of \$172,000,000 to tax/rate payers.

Table 1
Projects Funded by Priority List Ranking

Priority List Rank	Clean Water Revolving Fund		Drinking Water Revolving Fund	
	FY03	FY04	FY03	FY04
Projects in Top 10				
# of Projects	2	3	4	1
\$ of Projects	\$3,217,670	\$10,425,446	\$4,061,938	\$306,000
Projects in Top 25				
Cumulative # of Projects	6	5	5	2
Cumulative \$ of Projects	\$33,400,245	\$25,623,889	\$4,601,938	\$1,356,000
Projects in Top 50				
Cumulative # of Projects	7	9	11	5
Cumulative \$ of Projects	\$36,400,245	\$48,495,441	\$14,616,858	\$9,135,030
Remainder of List				
Cumulative # of Projects	0	0	0	1
Cumulative \$ of Projects	\$0	\$0	\$0	\$36,414,920

Table 2
Projects Funded by Population Category

Population Category	Clean Water Revolving Fund		Drinking Water Revolving Fund	
	FY03	FY04	FY03	FY04
Less than 2,500				
# of Projects	2	2	5	1
\$ of Projects	\$2,631,530	\$1,225,446	\$4,601,938	\$1,050,000
Between 2,501 & 5,000				
Cumulative # of Projects	1	3	0	2
Cumulative \$ of Projects	\$3,000,000	\$9,656,333	\$0	\$3,638,280
Between 5,001 & 10,000				
Cumulative # of Projects	1	2	1	1
Cumulative \$ of Projects	\$4,400,000	\$16,598,443	\$100,000	\$1,946,750
Above 10,001				
Cumulative # of Projects	3	2	5	2
Cumulative \$ of Projects	\$26,368,715	\$21,015,219	\$8,788,080	\$38,914,920

Goals & Performance Measures

Goal 2: Maintain the fiscal integrity of WIFA's Funds and assure continuous enhancement for future generations.

In addition to maintaining fiscal integrity, WIFA invests its monies to ensure growth in the fund keeps pace with inflation. WIFA loan interest revenues decreased by 43% from the previous year; shown in Figure 1. Loan servicing fees increased 24%. Total non-program earnings decreased over \$2 million, or approximately 2% during Fiscal Year 2004.

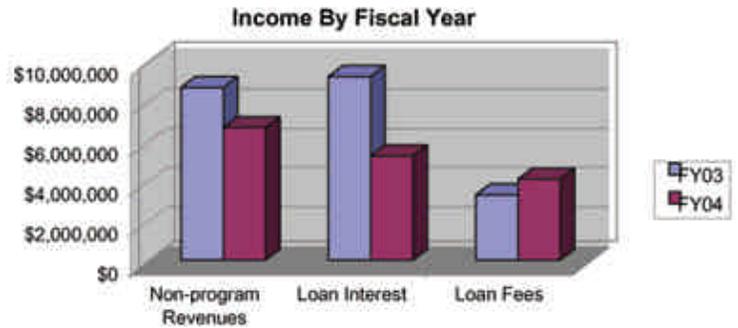


Figure 1

Further evidence of WIFA's commitment to preserve and grow the funds is shown in WIFA's Statement of Financial Position (see page 10.)

Figure 2 reflects an increase in WIFA's investment portfolio, which provides security to loans and generates interest earnings. The increase is a result of the WIFA 2004 series bond issue and the resulting increase of cash invested during Fiscal Year 2004.

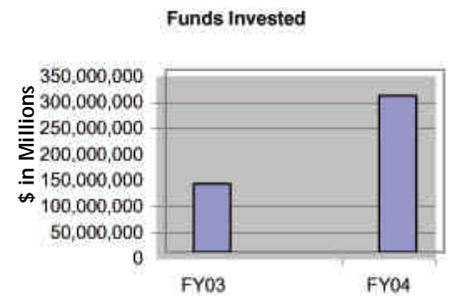


Figure 2

Goal 3: Facilitate access to and efficiently deliver financial and technical assistance.

The number and amount of loan disbursements made by WIFA is shown in Figure 3. The number and amount of disbursements increased by 21% and 32%, respectively, as compared to the prior year.

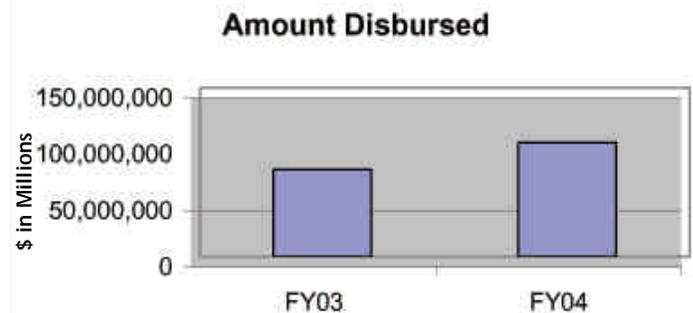
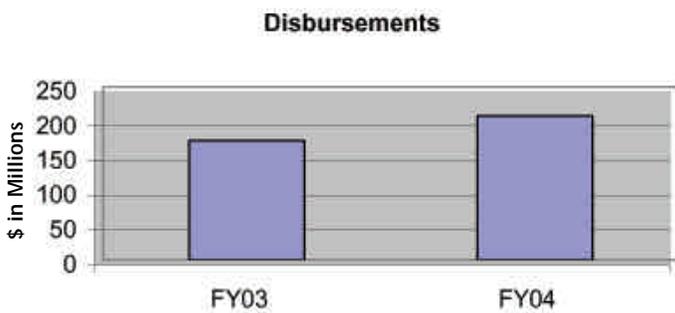


Figure 3

Goals & Performance Measures

During Funding Cycle 2004, WIFA provided finances to a diverse portfolio of borrowers. The presence of strong borrowers within the portfolio benefits all program participants. As show in Figure 4, WIFA provided fewer loans in Funding Cycle 2004 to borrowers with strong credit ratings than those who were not rated. However, in monetary terms, the total amount loaned to strong credit borrowers exceeded the amount loaned to those whoe were not rated.

Funding Cycle '04 Loans by Rating Category
\$94,045,391

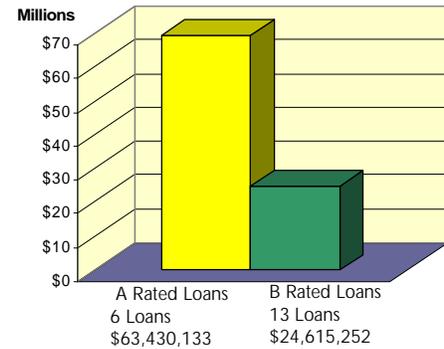


Figure 4

Goal 4: Efficiently administer WIFA within a positive work environment.

WIFA seeks to reduce operating expenses and secure services from those qualified to provide that service at the least cost. Figure 5 shows the allocation of operating expenditures.

Operating Expenditures FY04 -
\$1,548,877

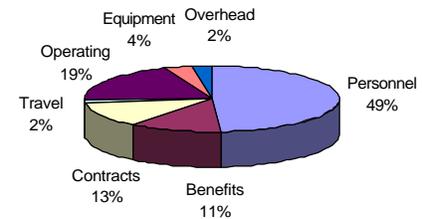


Figure 5

In Fiscal Year 2004, WIFA increased its budget to accommodate growth and expenditures levels increased accordingly. WIFA continues to expend at levels substantially below its budget authority as indicated in Figure 6.

Budget Compared to Expenditures

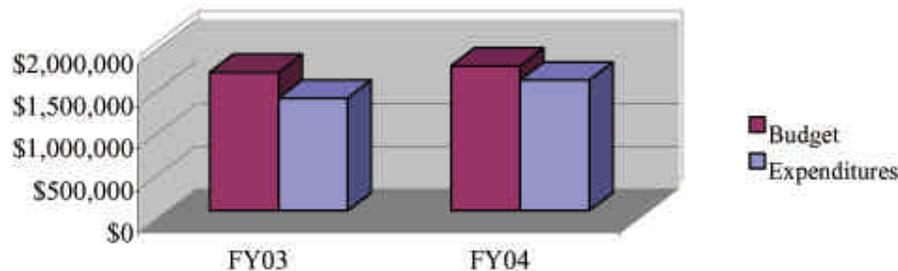


Figure 6

CWSRF Loan & Grant Awards

Funding Cycle 2004 Activity

Bullhead City \$12,918,443 (FA)	Overgaard DWID \$300,000 (FA)
Bullhead City \$35,000 (FA)	Pima County \$18,015,219 (FA)
Eloy \$17,371 (TA)	Pinal County \$5,775 (FA)
Florence \$20,000 (TA)	Raven Ridge CFD \$925,446 (FA)
Gila Resources \$35,000 (TA)	Somerton \$4,400,000 (FA)
Kingman \$12,500 (TA)	Taylor \$156,333 (FA)
Lake Havasu \$3,560,000 (FA)	Tucson \$3,000,000 (FA)
Lake Havasu \$5,940,000 (FA)	Yuma County Housing Department \$3,750 (TA)

Funding Cycle 2003 Activity

Alpine Sanitary District \$10,000 (TA)	Raven Ridge CFD \$1,217,670 (FA)
Bisbee \$20,000 (TA)	Seligman Sanitary District \$26,000 (TA)
Bullhead City \$16,149,535 (FA)	Somerton \$22,000 (TA)
Clifton \$10,000 (TA)	Taylor \$10,000 (TA)
Coolidge \$25,000 (TA)	Virgin River DWWID \$20,000 (TA)
Holbrook \$15,000 (TA)	White Mount Apache Housing Authority \$2,000,000 (FA)
Nogales \$35,000 (TA)	Wickenburg \$3,000,000 (FA)
Pima County \$9,001,510 (FA)	Williams \$35,000 (TA)
Quartzsite \$15,000 (TA)	Yuma County \$4,000 (TA)
Financial Assistance Loans - (FA)	Technical Assistance Grants - (TA)

DWSRF Loan & Grant Awards

Funding Cycle 2004 Activity

Avra Water Co. \$1,946,750 (FA)	Mt. Lemmon DWID \$1,050,000 (FA)
Benson \$3,750 (TA)	Picacho Water Improvement Corporation \$22,014 (TA)
Carefree \$3,332,280 (FA)	Picacho Peak Water Company \$24,907 (TA)
Chandler Heights ID \$306,000 (FA)	Ponderosa Park DWID \$12,000 (TA)
Flowing Wells Irrigation District \$5,750 (TA)	SoHi Domestic Water Improvement District \$18,000 (TA)
Golden Valley County Improvement District \$2,000 (TA)	Walden Meadows Community Co-Op \$18,000 (TA)
Graham County Utilities \$35,000 (TA)	Tucson \$2,500,000 (FA)
Mountain Glen Water Service, Inc. \$20,000 (TA)	Yuma \$36,414,920 (TA)

Funding Cycle 2003 Activity

Abra Water Company \$163,888 (FA)	Mt. Lemmon Water Co-op \$35,000 (TA)
Chloride DWID \$800,000 (FA)	Rincon Water Company \$15,000 (TA)
Chloride DWID \$15,000 (TA)	St. Johns \$35,000 (TA)
Cottonwood \$10,000 (TA)	Show Low \$20,000 (TA)
Eager \$13,000 (TA)	Silverbell Irrigation & Drainage District \$12,000 (TA)
Eager \$100,000 (FA)	Tucson Water \$2,500,000 (FA)
Frank Lloyd Wright Foundation Taliesin West \$35,000 (TA)	Water Utility of Greater Tonopah \$5,000 (TA)
Fredonia \$35,000 (TA)	Wenden DWID \$25,000 (TA)
Keaton Development Co. \$35,000 (TA)	West End Water Co. \$13,000 (TA)
KEW Water Development Board \$30,000 (TA)	White Mountain Apache Housing Authority \$3,000,000 (FA)
Marana DWID \$12,000 (TA)	Yuma \$2,500,000 (FA)
Mayor DWID \$30,000 (TA)	Yuma \$2,410,000 (FA)
Mt. Lemmon Water Co-op \$540,000 (FA)	Yuma \$1,126,840 (FA)
	Yuma \$1,378,080 (FA)

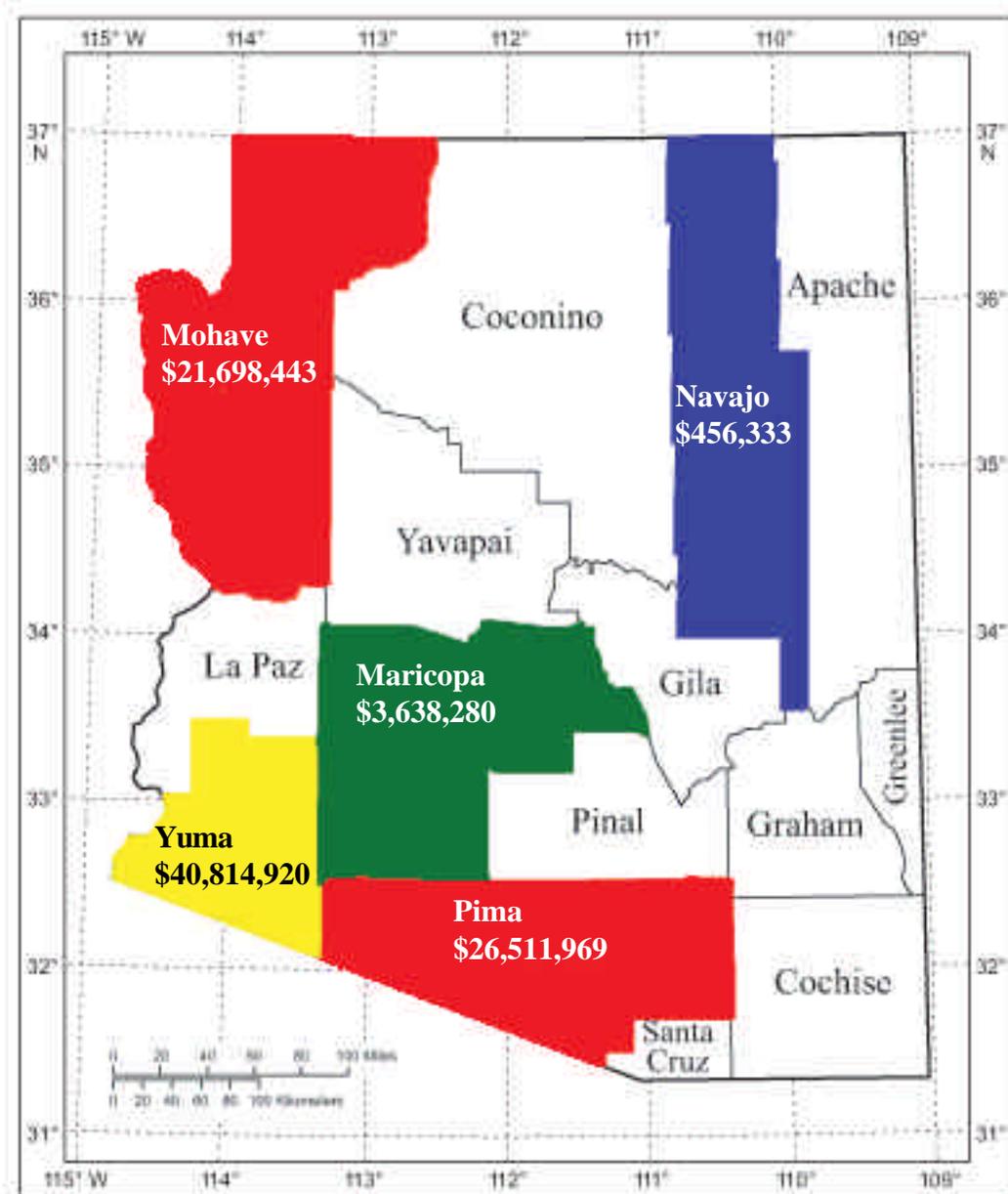
Financial Assistance Loans - (FA)

Technical Assistance Grants - (TA)

Financial Assistance Activity

Funding Cycle 2004 Activity *

* This includes financial assistance activity for funding cycle 2004 only.



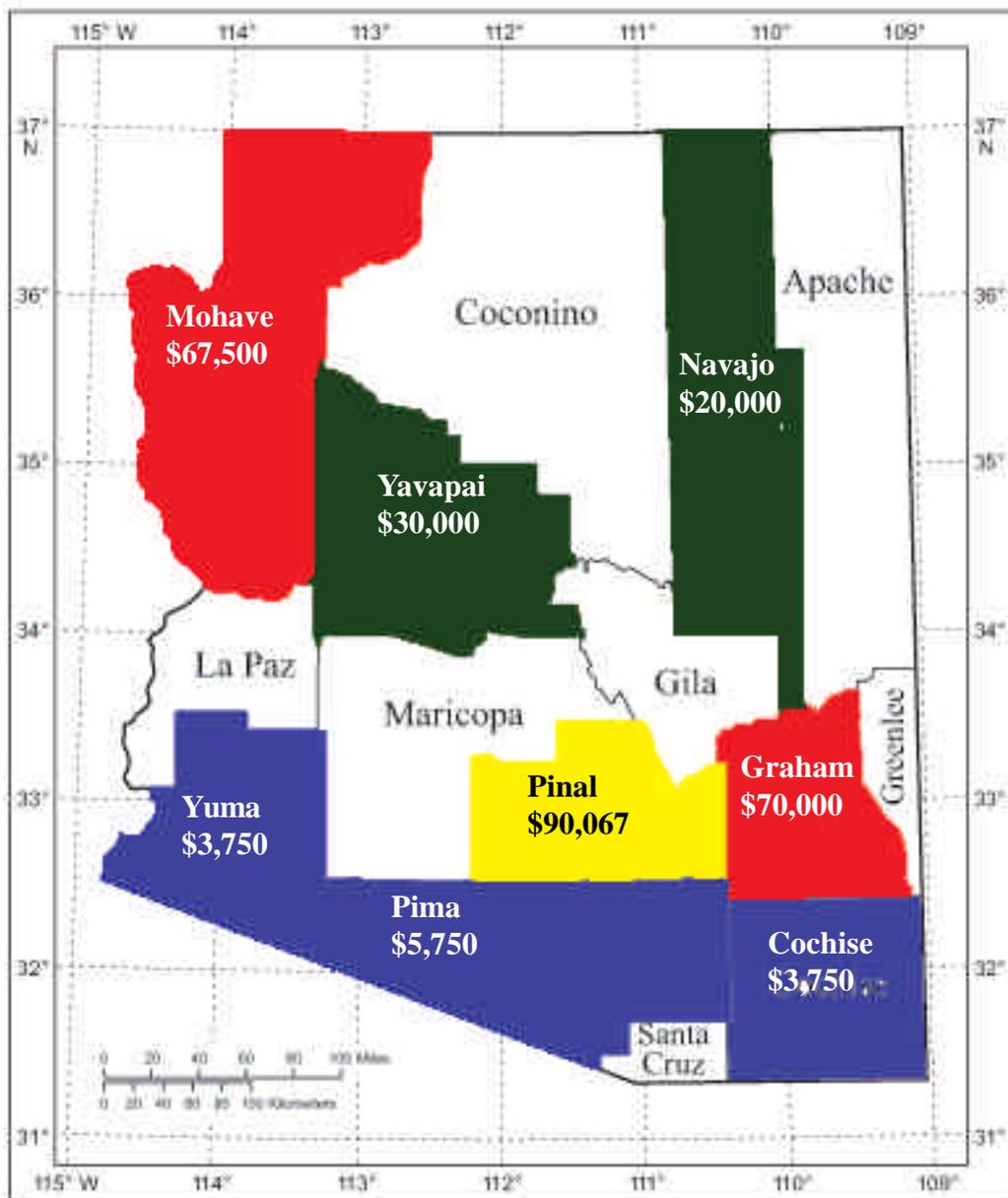
Key

- \$40,000,000+
- \$20,000,000 to \$40,000,000
- \$2,000,000 to \$20,000,000
- \$450,000 to \$2,000,000

Technical Assistance Activity

Funding Cycle 2004 Activity *

* This includes financial assistance activity for funding cycle 2004 only.

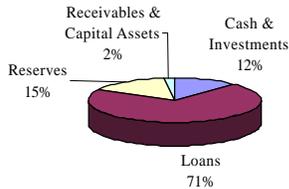


Key

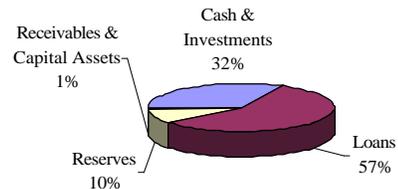
- \$84,000+
- \$52,000 to \$83,999
- \$20,000 to \$51,999
- \$3,750 to \$19,999

Statement of Financial Position

**WIFA's Assets -- \$ 479.2M
FY 03**



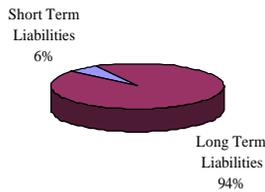
**WIFA's Assets -- \$ 716.5M
FY 04**



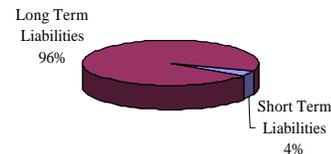
Assets

During Fiscal Year 2004, WIFA's assets grew by \$237.3 million, as compared to the previous year. In the last three years, WIFA assets have increased from \$237.5 million to \$716.5 million. This growth is attributable to increases in the loan portfolio, additional capitalization by the sale of water quality revenue bonds, and additional federal and state contributions.

**WIFA's Liabilities -- \$ 240.5M
FY 03**



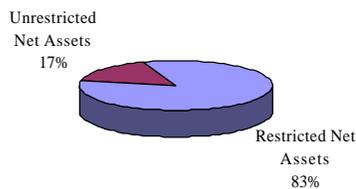
**WIFA's Liabilities -- \$444.8M
FY 04**



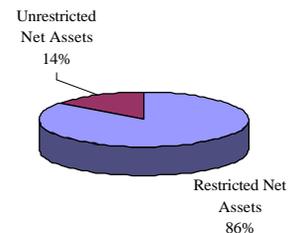
Liabilities

WIFA's liabilities increased from the previous year by \$204.3 million, primarily due to an increase in bonds payable. These liabilities are directly linked to the Authority's leveraged loan portfolio and are also secured by investment reserves managed by WIFA.

**WIFA's Net Assets -- \$ 238.7M
FY 03**



**WIFA's Net Assets -- \$ 271.7M
FY 04**



Net Assets

WIFA's net assets are still growing rapidly. In 2002, its net assets were \$226.6 million; by Fiscal Year 2003, net assets were \$238.7 million, and this year net assets increased to \$271.7 million. The equity growth rate for 2004 was almost 14%. The overall growth rate since 2002 is almost 20%.

Statement of Financial Position

STATEMENT OF NET ASSETS

ASSETS	FY03	FY04
Cash	\$57,803,870	\$232,328,770
Investments	73,458,184	68,081,810
Accrued Interest Receivable	5,325,044	3,437,416
Capital Assets (net of depreciation)	25,120	15,638
Debt Management Fees Receivable	1,384,707	880,331
Loans	338,555,406	409,169,550
Deferred Bond Issue Costs	1,509,469	2,579,427
Deferred Loss On Retirement Of Bonds	1,145,070	0
TOTAL ASSETS	\$479,206,870	\$716,492,942
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	\$12,517	\$0
Accrued Payroll	16,110	20,310
Compensated Absences	58,655	52,798
Interest Payable	3,806,903	5,105,470
Bonds Payable	230,280,000	417,400,000
Unamortized Bond Premiums	4,672,665	29,887,221
Deferred Amount on Retired Bonds	0	(9,190,263)
Deferred Administrative Funds (Loaned)	490,875	0
Loan Reserve	1,201,977	1,568,195
TOTAL LIABILITIES	\$240,539,702	\$444,843,731
 NET ASSETS		
Net assets invested in capital assets	25,120	15,638
Restricted for capitalization grants	199,180,304	232,602,952
Unrestricted	39,461,744	39,030,621
TOTAL NET ASSETS	\$238,667,168	\$271,649,211
 TOTAL LIABILITIES AND NET ASSETS	 \$479,206,870	 \$716,492,942

The financial statements for WIFA for the year ended June 30, 2004 have been audited by an independent certified public accounting firm, Henry & Horne, P.C. Copies of the complete audited financial statements are available upon written request to WIFA, 1110 W.Washington #290, Phoenix, Az 85007.

Statement of Financial Position

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

	FY03	FY04
PROGRAM REVENUES		
Interest Income	\$9,228,422	\$5,240,954
Debt Management Fees	3,284,787	4,066,852
TOTAL PROGRAM REVENUE	<u>\$12,513,209</u>	<u>\$9,307,806</u>
PROGRAM EXPENSES		
Interest Expense	\$11,881,633	\$12,876,283
Depreciation	27,306	29,032
Administration & Set Asides	2,208,994	2,405,960
Hardship Grant Expense	83,648	3,179
Financial Assitance	35,642	188,475
Technical Assitance	295,200	625,080
TOTAL EXPENSES	<u>\$14,532,423</u>	<u>\$16,128,009</u>
NET INCOME	(\$2,019,214)	(\$6,820,203)
NONPROGRAM REVENUES		
Adminstrative Grants	\$2,260,484	\$1,696,915
Investments Earnings	6,418,515	4,966,405
Total Nonprogram Revenues	<u>\$8,678,999</u>	<u>\$6,663,320</u>
INCOME BEFORE CONTRIBUTIONS	\$6,659,785	(\$156,883)
CONTRIBUTED CAPITAL - FEDERAL	\$3,325,469	\$30,503,773
CONTRIBUTED CAPITAL - STATE	1,971,325	2,918,875
CHANGE IN NET ASSETS	<u>\$11,956,579</u>	<u>\$33,265,765</u>
TOTAL NET ASSETS - Beginning of Year	\$226,658,163	\$238,667,168
Cummulative effect of change in accounting principal	0	
Prior Period Adjustment	52,426	(283,722)
TOTAL NET ASSETS - Beginning of Year- Restated	226,710,589	238,383,446
TOTAL NET ASSETS - End of year	<u>\$238,667,168</u>	<u>\$271,649,211</u>

The financial statements for WIFA for the year ended June 30, 2004 have been audited by an independent certified public accounting firm, Henry & Horne, P.C. Copies of the complete audited financial statements are available upon written request to WIFA, 1110 W.Washington #290, Phoenix, Az 85007.

WIFA Board of Directors

WIFA Board of Directors

Stephen A. Owens, *Chairman*
Director, Arizona Department of Environmental Quality

Paul T. Gardner, *Vice Chairman*
Water Systems >500 Customers

Gerald Flannery
Cities >50,000

William M. Garfield
Water Systems <500 Customers

Ron Gray
Representative of the Department of Water Resources

Gail Hackney
Sanitary Districts from Counties <500,000 Customers

Joseph A. Hughes
Cities <50,000; Counties <500,000

Steve Olea
Representative of the Corporation Commission

Cynthia M. Seelhammer
Counties >500,000

E. Blaine Vance
Representative of the State Treasurer's Office

Joe F. Yuhas
Representative of the Department of Commerce

WIFA Staff

Jay R. Spector, *Executive Director*

Jon Bernreuter, *Environmental Program Specialist*

Frank Castro, *Controller*

Julie Flores, *Accountant*

Christopher R. Inghram, *Financial Analyst*

Angelica Martinez, *Assistant to the Executive Director*

Yolanda Mendoza, *Administrative Secretary*

Mark A. Ramirez, Sr., *IT Specialist III*

Antonio Sotelo, *Financial Analyst*

William "Tony" Taylor, *Director of Information Technology*

Angie Valenzuela, *Director of Administration and Operations*

Brad Whitmore, *Network Administrator*

Adam G. Williams, *Chief Financial Officer*

Christina J. Worden, *Communications Director*



August 20, 2004: Governor Janet Napolitano signs SB 1062 into law, reauthorizing the Water Infrastructure Finance Authority of Arizona for 10 years until July 1, 2014.

The logo for the Water Infrastructure Finance Authority of Arizona (WIFA) features the acronym "WIFA" in a bold, serif font, enclosed within a white rectangular box with a thin black border. This box is set against a light gray, irregular, cloud-like background shape.

WIFA

Water Infrastructure Finance Authority of Arizona

"Arizona's water and wastewater funding source"



1110 W. Washington Street, Suite 290
Phoenix, AZ 85007

Phone: (602) 364-1310
Fax: (602) 364-1327

Toll free: (877) 298-0425
Web site: www.azwifa.gov